

SENATE BILL REPORT

SB 5733

As of February 18, 2009

Title: An act relating to modifying tax credits for research and development expenditures.

Brief Description: Modifying tax credits for research and development expenditures.

Sponsors: Senator Kastama.

Brief History:

Committee Activity: Economic Development, Trade & Innovation: 2/05/09.

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, TRADE & INNOVATION

Staff: Philip Brady (786-7460)

Background: A credit against the business and operations tax is allowed for certain operational research and development (R&D) in high technology businesses. This credit is provided to businesses that make R&D expenditures exceeding 0.92 percent of taxable income. The credit is determined by multiplying qualifying R&D expenditures above 0.92 percent of taxable income by the greater of the taxpayer's average tax rate or a rate set in statute (statutory rate). The statutory rate in 2007 was 0.75 percent but has increased. It is now set at 1.25 percent, and will rise permanently to 1.5 percent in 2010. The credit must be claimed against taxes for the same calendar year as the research expenditures.

Summary of Bill: Step-up provisions are eliminated and the statutory rate is set at 1.0 percent for private R&D. Businesses conducting R&D through public universities, economic development entities, and public research institutions are granted the credit at a set rate of 1.5 percent of all expenditures on publicly-conducted R&D, not just those exceeding 0.92 percent of taxable income.

Appropriation: None.

Fiscal Note: Requested on January 23, 2009.

[OFM requested ten-year cost projection pursuant to I-960.]

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Staff Summary of Public Testimony: PRO: This program would drive R&D into public universities. Promoting collaboration is good. There are some technical issues. The step up in 2010 should be restored, and the sunset clause should be removed. This would give certainty to planned expenditures based on the upcoming 1.5 percent rate. It's wrong to treat public and private research differently. Improvements could be made by removing the 0.92 effect, the survey prerequisite, or by adding language to provide first-time waivers for survey violations.

Persons Testifying: PRO: Senator Kastama, prime sponsor; Lew McMurrin, Washington Tech Industry Association; Lee Cheatham, Washington Technology Center; Amber Carter, Association of Washington Business.